

Tax Exempt Bonds Finance Projects in Illinois

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Sexton Energy LLC

- John Sexton Sand & Gravel Inc.
- Environmental Information Logistics LLC
- Carolan Associates LLC

Des Plaines & Westchester

- Location of the Landfills in Illinois
- Owned : Archdiocese of Chicago
- Operated : John Sexton Sand & Gravel

Background

- Original Developer in 1995 had the Gas Rights Agreement
- John Sexton & Archdiocese Built Gas Collections System in 1997-98 Driven by Concerns of Environmental Issues
- Developer into Bankruptcy and Gas Rights Reverted to Archdiocese in 2002

Background

- Closed Sites with Closure Responsibility for the Archdiocese and John Sexton for 30 Years
- Gas Collection System Producing Substantial Gas Flows
- Owner & Operator Wished to Use the LFG to Produce Power Rather than Flaring

Sexton Energy LLC

- Formed by John Sexton Sand & Gravel
- Negotiated G R A with Archdiocese
- Project Concept Two 3.5 MW Facilities Using Jenbacher Engines (Tied Up in Same Bankruptcy for 5 Years)
- No Section 29 Tax Credits
- Illinois Retail Rate Available

Project Description

- Sites Closed for 20 Years
- Current LFG Flows Support 6-7 MW
- Project Sized at 3.5 MW to Match the Jenbacher Engines
- Economics Very Tight
- Evaluate Tax Exempt Bonds to Reduce the Project Costs

Project Teams

- Management
- Technical
- Permitting (Zoning)
- Financial

Management Team

- John Sexton Sand & Gravel
 - Landfill Operator & Majority Member
- Environmental Information Logistics (EIL)
 - Consultant That Manages Environmental Compliance & Gas Collection; Civil
- Carolan Associates LLC
 - Developer & Project Management Function

Project Team

- Cummins & Barnard - Design
- E I L - Civil
- Sexton Development LLC- Construction
- G E Jenbacher- Engines
- Misc. Consultants- Foundations
- Carolan Associates- Management

Permitting Team

- EMCON - Air
- E I L – Solid Waste, Other
- Sexton Development
- Many Legal Firms
- Misc. Consultants – Noise, etc.
- Carolan Associates - Management

Financial Team

- Bond Counsel
 - Wildman, Harrold, Allen & Dixon
 - Jim Snyder
- Investment Banker
 - Stern Brothers & Co.
 - John May
- Management Representative
 - Carolan Associates – Mike Carolan

Financial Team

- Different World
- Guides to Navigate Through This Unique Sector of the Financial Jungle
- Tax Code : Legal and Technical Understanding
- Selling the Bonds
- Rating the Bonds

Bond Financing

- Opinion of Counsel (Bond)
- Investment Banker to Purchase and Remarket the Bonds
- Issuing Agency- Illinois Development Finance Agency

Bond Financing

- Letter of Credit – (Fifth Third Bank)
- \$7,500,000 Bonds for 20 Years
- Rated AA (Interest at 5%)

Value to Project

- Typical Project Financing – 9.5% for 10 Years
- Tax Exempt Bonds - 5% for 20 Years
- Difference Equates to \$0.01 per KWH over Life of Project

Lessons Learned

- It Takes Time – 9-12 Months
- Requires Seed Capital:
 - Engineering Design
 - Permitting & Zoning
 - Major Equipment Purchase
 - Project Management
 - Many Legal Firms & Other Consultants

Lessons Learned

- Funding Requires:
 - Design Completed
 - Construction Quotes
 - Zoning Completed
 - All Permits in Hand
 - Independent Gas Study & Analysis
 - Independent Financial Analysis
 - Major Equipment Purchases
 - Site Leases
 - Power Purchase Agreement
 - Gas Rights Agreement

Future Template

- Illinois Unique (Retail Rate)
- Similar Avoided Cost to PJM Region
- Opportunity in a Deregulated Market?

Case Study

- Operating Landfill
- Located in PJM (NEPOOL)
- Size of Potential Plant : 3 MW
- Sell at PJM Clearing Price
- Gas Collection by Others – Cost to Project Is \$0.40 per MMBTU

Case Study

- Project Capital : \$3,600,000
- Debt is \$3,000,000
- Term of 20 Years at 5% Interest
- PJM Pricing : \$35 per MWH (Actual 3 yr Ave); Escalating 1% Annually
- Typical O&M Agreement (Cost & Performance)
- Insurance & Administration Expenses

Case Study

- Need Organization Legally Able to Issue Bonds (State Authority, County, City)
- Strong Credit to Back the Bonds (Major Bank, Governmental Entity, Corporation)

Case Study

- Bond Financing:
- Debt of \$3,000,000 @ 5% for 20 Years
 - Principal & Interest Payment :
\$240,000 / YR
 - Debt Coverage : 1.25 +

Case Study

- **Project Finance for Debt of \$3,000,000 @ 9.5% for 10 Years**
 - **Principal & Interest Payment : \$480,000 / YR**
 - **Debt Coverage : 0.6**
 - **Can Only Support \$1,500,000 of Debt**

Case Study

- Benefit of Tax Exempt Financing:
- Equates to \$0.01 per KWH Or
Roughly Equal to Tax Credit

Case Study

- Project is a Minimal Return for a Private Investor +/- IRR = 10% with Major Risk
- Upside is “Green Ticket” and Other Attributes That Can be Sold
- Example : REC Sale @ \$5/MWH (\$0.005/KWH) Raises IRR to 20%

Conclusion

- Tax Exempt Bond Financing Provides Significant Savings Equal to Tax Credits
- Benefit is Project Specific
- Would Have Major Impact in a Public-Private Partnership or Public Project